

Message Text

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71-62

ACTION EA-09

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 7122

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL SYDNEY

AMCONSUL PERTH

USDEL MTN GENEVA

USMISSION OECD PARIS

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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TAGS: EGEN, AS

SUBJ: U.S. ECONOMIC POLICY IMPLICATIONS OF LIBERAL-NATIONAL
COUNTRY PARTY VICTORY

REF: A-127 (NOTAL)

1. SUMMARY: EMBASSY SEES AT LEAST THREE ECONOMIC POLICY
IMPLICATIONS OF RECENT L-NCP VICTORY WHICH WILL BE OF DIRECT
AND IMMEDIATE INTEREST TO USG: (1) THE LIKELIHOOD THAT FRASER
GOVERNMENT WILL BE MORE PROTECTIONIST THAN ITS PREDECESSOR; (2)
THE SHORTENING ODDS IN FAVOR OF AN EARLY DEVALUATION OF THE
\$A FOR POLITICAL MOTIVES, EVEN THOUGH THERE IS NO REAL ECONOMIC
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JUSTIFICATION AND (3) THE LIKELIHOOD THAT NEW GOVERNMENT WILL BE

MORE RECEPTIVE TO FOREIGN INVESTMENT, PARTICULARLY IN MINERALS AND ENERGY. END SUMMARY.

2. PROTECTION: FRASER WAS AS UNEQUIVOCAL ON THIS POINT AS ON ANY SINGLE POLICY ISSUE DURING CAMPAIGN. "JOBS NOT DOGMA" SLOGAN USED AT OUTSET WAS OBVIOUS REFERENCE TO FREE TRADE IDEALS OF EARLY DAYS OF WHITLAM GOVERNMENT WHICH RESULTED IN 25 PERCENT ACROSS-THE-BOARD TARIFF CUTS. THROUGHOUT CAMPAIGN FRASER PROMISED "ADEQUATE PROTECTION TO AUSTRALIAN INDUSTRY". COALITION'S CONSTITUENCY --MANUFACTURING AND RURAL INTERESTS -- IS TRADITIONALLY PROTECTIONIST AND HAS BEEN CHIEF SOURCE OF CRITICISM OF TRADE LIBERALIZATION MOVES. ON OTHER HAND, THE LABOR MOVEMENT HAS NOT BEEN WITHOUT ITS VOCAL ADVOCATES OF PROTECTION. IT WAS RESPONSETO THESE PRESSURES WHICH LED TO SERIES OF TEMPORARY RESTRICTIONS INTRODUCED IN EARLY 1975. NEVERTHELESS, IN OUR VIEW ALP HAS DEMONSTRATED A FAR STRONGER COMMITMENT IN PRINCIPLE TO EVENTUAL RETURN TO TRADE LIBERALIZATION AND, IN LAST SIX MONTHS OF ITS MINISTRY TOOK VIRTUALLY NO NEW RESTRICTIVE MESAURES. THIS APPROACH IS NOT EVIDENT IN COALITION OUTLOOK, WHICH, IN ADDITION TO STATEMENTS NOTED ABOVE, HAS ALREADY MADE CERTAIN MUTTERINGS ABOUT RESTRUCTURING INDUSTRIES ASSISTANCE COMMITTEE (IAC) AND SEVERELY LIMITING AND SLANTING THE "FRAMES OF REFERENCE" WITHIN WHICH IT MUST OPERATE IN ANY PARTICULAR INVESTIGATION. AS FURTHER INDICATION OF WAY WIND MIGHT BE EXPECTED TO BLOW, DEPARTMENT OF OVERSEAS TRADE OFFICIALS RECENTLY REFUSED RULE OUT POSSIBILITY THAT NEW GOVERNMENT MIGHT WITHDRAW FROM MULTILATERAL FIBER AGREEMENT (MFA). WE WOULD EXPECT SEE THIS PHILOSOPHY BECOME MORE STRONGLY APPARENT AS NEW GOVERNMENT TAKES HOLD.

3. DEVALUATION: AS DEPARTMENT AWARE, TALK OF POSSIBLE AUSTRALIAN DEVAULATION HAS BEEN RIFE FOR MANY MONTHS, DESPITE FACT THAT THERE HAS BEEN NO REAL ECONOMIC JUSTIFICATION FOR SUCH AN ACTION. SINCE ELECTION SUCH TALK HAS GAINED MOMENTUM IN NO SMALL DEGREE BECAUSE OF WHAT IS SEEN BY MANY AS A VERY CLEAR HINT IN FRASER'S ECONOMIC POLICY SPEECH WHERE HE SAID "WE WILL MAKE AUSTRALIAN INDUSTRY COMPETITIVE AGAIN." HE WAS PRESUMABLY REFERRING TO BOTH OVERSEAS MARKETS AND TO IMPORT COMPETITION AND MAY BE TEMPTED TAKE QUICK AND VERY VISIBLE MEANS OF MAKING AUSTRALIAN INDUSTRY MORE COMPETITIVE IN BOTH AREAS. DEVALUATION
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WOULD ALSO BE ATTRACTIVE TO AGRICULTURAL SUPPORTERS OF DOUG ANTHONY'S COUNTRY PARTY AND TO MINERALS EXPORTERS WHO ARE SEEN TO BE IN LINE FOR SOMEWHAT MORE DIFFICULT TIMES DURING COMING MONTHS DUE IN NO SMALL DEGREE TO PROBABLY CUTBACKS BY JAPAN IN ITS IMPORTS OF IRON ORE AND COAL AND WEAKNESS OF COPPER AND TIN MARKETS. SOME OBSERVERS ALSO SEE "OFFICIALLY LEAKED" INFORMATION THAT IN TWO-WEEK PERIOD ENDING DECEMBER 10 AUSTRALIA EXPERIENCED A CAPITAL OUTFLOW OF \$A182 MILLION, AS AN ATTEMPT AT MEDIA

MANAGEMENT DESIGNED TO PREPARE WAY FOR DEVALUATION. ON OTHER HAND, SOME OBSERVERS HAVE SPECULATED THAT STRENGTH OF LIBERAL ELECTION VICTORY AND RELATIVELY POOR NCP SHOWING WOULD ENABLE FRASER BETTER RESIST PRESSURE IN FAVOR OF DEVALUATION FROM NCP LEADERS SHOULD HE BE SO INCLINED. GOVERNMENT WILL OF COURSE HAVE TO WEIGH ADVERSE ASPECTS OF DEVALUATION INCLUDING INFLATIONARY IMPACT AND POSSIBLE STRONG CAPITAL INFLOWS, BUT POLITICAL BENEFITS MAY BE THOUGHT TO BE OVERRIDING. WHILE EMBASSY SEES NO RPT NO CONVINCING ECONOMIC ARGUMENTS FOR DEVALUATION, IT BELIEVES THAT ODDS IN FAVOR ARE SHORTENING DUE TO CHANGE IN GOVERNMENT.

4. FOREIGN INVESTMENT: DURING CAMPAIGN COALITION SPOKESMEN STATED THAT FOREIGN INVESTMENT WILL BE WELCOMED, BUT ON TERMS WHICH SERVE AUSTRALIAN NEEDS. ALMOST IN NEXT BREATH THEY POINTED OUT THAT MINERALS AND ENERGY INVESTMENT NEARLY STOPPED DURING WHITLAM/CONNER PERIOD. EMBASSY THUS INCLINED BELIEVE THAT INVESTMENT ATMOSPHERE, ESPECIALLY WITH REGARD TO MINERALS AND ENERGY PROSPECTS, WILL UNDERGO VERY CONSIDERABLE SHIFT UNDER L-NCP CONTROL, EVEN THOUGH ACTUAL SUBSTANCE MAY NOT DIFFER GREATLY FROM LABOR POLICY AS FINALLY SPELLED OUT IN STATEMENT OF SEPTEMBER 24, 1975. IT IS AGAIN USEFUL TO REFLECT ON ATTITUDES OF L-NCP CONSTITUENCIES IN THIS CONNECTION. THESE GROUPS ARE LIKELY TO STRONGLY FAVOR INFLOWS OF DEVELOPMENT CAPITAL FROM OVERSEAS, SINCE THEY EITHER DISINCLINED FOREGO CONSUMPTION, LACK THE AMOUNTS REQUIRED AND ARE DISINCLINED LEAVE FINANCING TO "BIG GOVERNMENT" IN FORM OF AUSTRALIAN INDUSTRIAL DEVELOPMENT CORPORATION (AIDC) OR PREFER NOT TO TAKE THE SIZEABLE RISKS ENTAILED. AT SAME TIME THEY LIKELY TO WISH TO RETAIN CONTROL. CARETAKER MINISTER FOR MINERALS AND ENERGY, DOUG ANTHONY, IMMEDIATELY CALLED FOR INCREASED AUSTRALIAN EQUITY (PRESENTLY 10 PERCENT) IN UTAH DEVELOPMENT CORP, FOLLOWING SURPRISE ANNOUNCEMENT OF GENERAL ELECTRIC'S TAKEOVER OF CONTROLLING INTEREST IN UDC. ANTHONY ALSO ANNOUNCED THAT TAKEOVER WOULD COME UNDER REVIEW PROCEDURES SET UP BY FOREIGN LIMITED OFFICIAL USE

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TAKEOVERS ACT (SEE CANBERRA A-127), PASSED IN AUGUST, BUT ONLY FINALLY BEING PROCLAIMED WITHIN NEXT FEW DAYS TO COME INTO EFFECT ON JANUARY 1. UTAH TAKEOVER WILL BE SUBJECT OF SEPTEL. THUS L-NCP GOVERNMENT CAN BE EXPECTED TO HAVE BETTER APPRECIATION OF PRAGMATIC NEED TO "WELCOME" FOREIGN INVESTMENT, BUT AT SAME TIME BE EQUALLY DEDICATED TO PRINCIPLES OF LOCAL CONTROL AND OWNERSHIP. THIS DEDICATION WILL BE NATIONALISTIC ONLY, AND NOT NATIONALISTIC AND IDEOLOGICAL AS WAS CASE DURING EARLIER DAYS OF WHITLAM GOVERNMENT, AND CANNOT IN OUR VIEW HELP BUT REPRESENT SIGNIFICANT IMPROVEMENT IN INVESTMENT CLIMATE.

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